

The Republic of Argentina Debt Restructuring: Myths & Facts

From June 8 to June 17, 2020, the Republic of Argentina held meetings with investors that had entered into non-disclosure agreements (NDAs) to discuss options to restructure the Republic's foreign law debt. Over the course of that dialogue, the solutions proposed by bondholders were largely inconsistent with the IMF's Staff analysis of debt sustainability and parameters necessary for Argentina to restore macroeconomic stability. There was also lack of significant understanding and dialogue. In particular, some important points assumed to be settled in conversation were not reflected in written proposals or assessments. As a result, the Republic of Argentina chose not to renew non-disclosure agreements upon their expiration, further extended to July 24 its offer to bondholders, and announced that the Republic would "continue discussions and allow investors to continue contributing to a successful debt restructuring" while assessing "all options available as part of a comprehensive process to restore macroeconomic stability."

MYTH: Argentina walked away from the negotiation table.

FACT: Argentina did not walk away from negotiations. On the contrary, the Republic invited all bondholder groups to extend the NDAs to continue negotiations regarding the structure of a debt swap offer, including the design of a Value Recovery Instrument (VRI), under the premise that the constraints on debt sustainability should be respected.

Despite these challenges, the Republic welcomes further consultation in good faith prior to the expiration of the current offer on July 24.

MYTH: Negotiations between the Government of Argentina and its bondholders were productive and should have been allowed to continue.

FACT: The Republic of Argentina has sought to reach consensus with bondholders as expediently as possible to enable the government to refocus attention on managing the response to COVID-19 and reopening the economy. In this environment, the lack of coordination, and leadership among bondholders has been a critical stumbling block. Further unnecessary delays risk undermining Argentina's prospects for recovery and put additional strain on the country's public health infrastructure. The Republic is hopeful that creditor groups will harmonize their positions in the course of a thorough subscription period process.

MYTH: The offers submitted by creditors were reasonable.

FACT: While some of Argentina's creditors responded to the Republic's June 8 proposal with reasonable proposed adjustments, others submitted counteroffers that were significantly beyond what Argentina can responsibly commit to, and also inconsistent with the IMF's Staff analysis of debt sustainability and parameters necessary for Argentina to restore macroeconomic stability. Furthermore, creditors' inability to find agreement among themselves has been insurmountable, despite Argentina's continued efforts to reach agreement. Moreover, some proposals – notably the reversion of the existing collective action clauses – included adjustments

to the contractual framework tantamount to reversing years of consensus building in the international financial community.

MYTH: Argentina's most recent offer to creditors was not sufficiently generous.

FACT: Argentina first proposed an exchange offer for its foreign law debt on April 21. This offer was rejected by creditor groups several weeks later. Economy Minister Martín Guzmán repeatedly stated that Argentina would be willing to consider any combination of reduction of interest, reduction of principal or extension of maturities compatible with its debt sustainability goals. The expiration of the April 21 proposal was extended several times with the hope that additional time would engender an agreement.

In late May, Argentina put forward new debt restructuring terms representing a significant adjustment to the initial proposal, increasing the blended recovery value of the bonds. This offer was rejected by creditor groups.

In mid-June, Argentina again proposed more generous debt restructuring terms stretching the limits of the government's repayment capacity and further proposed a Value Recovery Instrument (VRI) based on exports. This proposal was rejected by creditor groups. Throughout this process, Argentina has sought a transparent, good faith and constructive dialogue with creditors.

MYTH: Argentina should take the deal offered, which is preferable to the economic costs of default.

FACT: Argentina's government is responsible for protecting the health and wellbeing of its 45 million citizens during an unprecedented global health crisis. Consensus exists across the political spectrum that excessive debt payments will unacceptably constrain Argentina's ability to build a foundation for renewed growth and provide health and social services to the most vulnerable citizens as COVID-19 continues to afflict thousands.

What's next?

Argentina has been and remains committed to constructive engagement with creditors, and is willing to consider a solution that respects the constraints that define what is compatible with the Republic's and the IMF's Staff analysis of Argentina's debt sustainability. To this end, on June 19 Argentina further extended to July 24 its offer to bondholders, and intends to take advantage of this extension to continue discussions and to put forth the definitive offer for the market at large to consider.

The Republic looks forward to a successful debt restructuring, which must be in line with Argentina's payment capacity.

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